



# BaWang International (Group) Holding Limited 霸王國際集團(控股)有限公司

Stock Code 股份代號: 1338

## 2010 Interim Results Announcement *August 2010*



# Agenda

1. Major Accomplishments
2. Financial Highlights
3. Business Review
4. Future Strategies
5. Q & A







**BaWang International (Group) Holding Limited**  
霸王國際集團(控股)有限公司

# *Major Accomplishments*



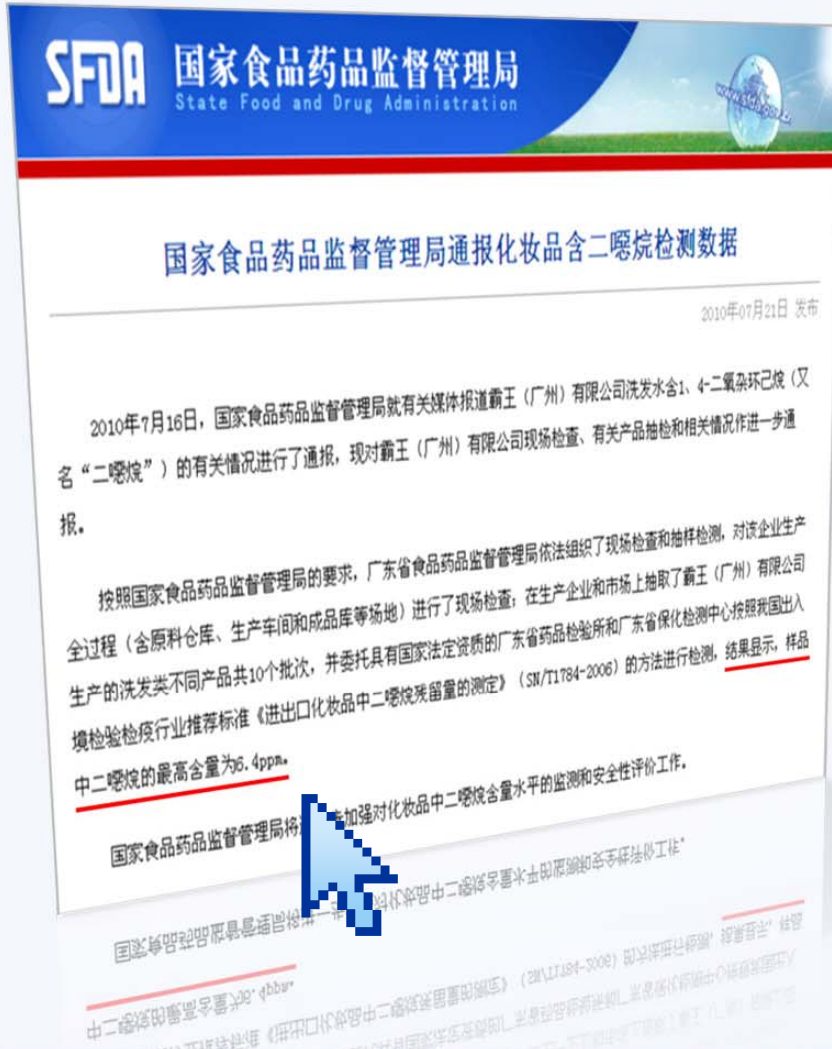
# Major Accomplishments

- ◆ Launched Bawang Herbal Drink in April 2010. Products were distributed in Southern China markets starting from June 2010, distribution network covers 50 cities in Southern China
- ◆ Bawang Brand's leading position further strengthened. Its market shares in Chinese herbal shampoo market increased to 52.9% in 2009
- ◆ Obtained the "China's Cosmetic Industry Leader Award" (中国化妆品工业领袖奖) from the China Association of Fragrance Flavor and Cosmetic Industry (中国化妆品工业论坛组委会)
- ◆ Bawang Brand was recognized by the Watsons Group of Singapore as the "Best Selling Traditional Chinese Medical Shampoo" and was also honored with the "Most Wanted Award 2010" in the "Health, Wellness and Beauty" category in two consecutive years
- ◆ The Group's R&D project related to the extraction of contents from polygoum (何首乌) was admitted in the "National Torch Program of China" (国家火炬计划) by the Ministry of Science and Technology
- ◆ The Group was authorized by Guangzhou Science and Technology Department, National Development and Reform Commission and State Economic and Trade Commission to establish "Key Engineering Technology Centers in Guangzhou for R&D of Chinese Herbs" (广州市中草药日化重点工程技术研究中心)





# Testing result of Bawang Products



	Ideal safety limit	Max. safety limit
China - State Food & Drug Administration	30ppm	100ppm
US - Food & Drug Administration	N/A	
US - Occupational Safety and Health Administration	---	100ppm
Australian Health Ministry	30ppm	100ppm
Bawang Product 	6.4ppm	

ppm: parts per million





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## *Financial Highlights*



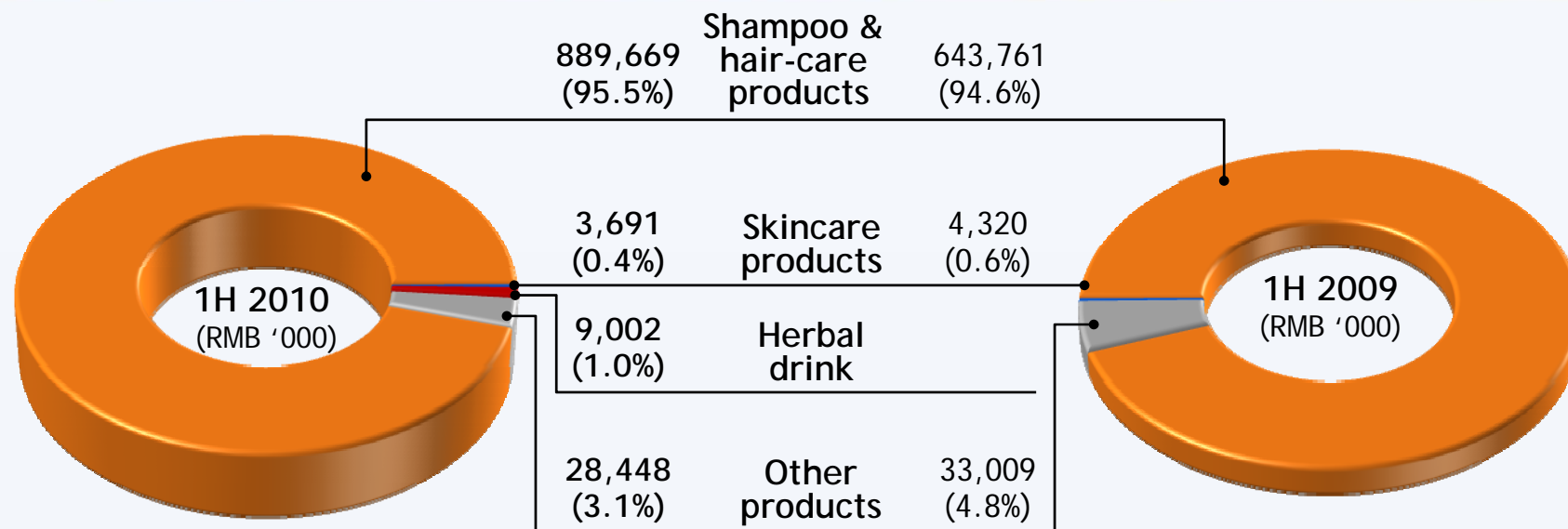






# Financial Highlights: Key Income Statement Figures

	1H 2010	1H 2009	Change (%)
(RMB'000)	<i>Six months ended 30 June</i>		
Revenue	930,810	681,090	+ 36.7%
Cost of sales	(311,658)	(230,364)	+ 35.3%
Gross profit	619,152	450,726	+ 37.4%
Selling & distribution costs	(382,063)	(284,103)	+ 34.5%
Administrative expenses	(53,435)	(36,016)	+ 48.4%
Profit from operations	186,188	128,538	+ 44.9%
Income tax	(36,067)	(29,228)	+ 23.4%
Profit attributable to equity shareholders	147,116	100,012	+ 47.1%
Earnings per share (RMB yuan)	0.05	0.05	--
Interim dividend (HK\$ cent)	1.5	--	N/A
Special dividend (HK\$ cent)	2.5	--	N/A
<i>Gross margin</i>	<i>66.5%</i>	<i>66.2%</i>	<i>+ 0.3% pts</i>
<i>Net margin</i>	<i>15.8%</i>	<i>14.7%</i>	<i>+ 1.1% pts</i>
<i>Effective tax rate</i>	<i>19.7%</i>	<i>22.6%</i>	<i>- 2.9 pts</i>



# Revenue by Product Category

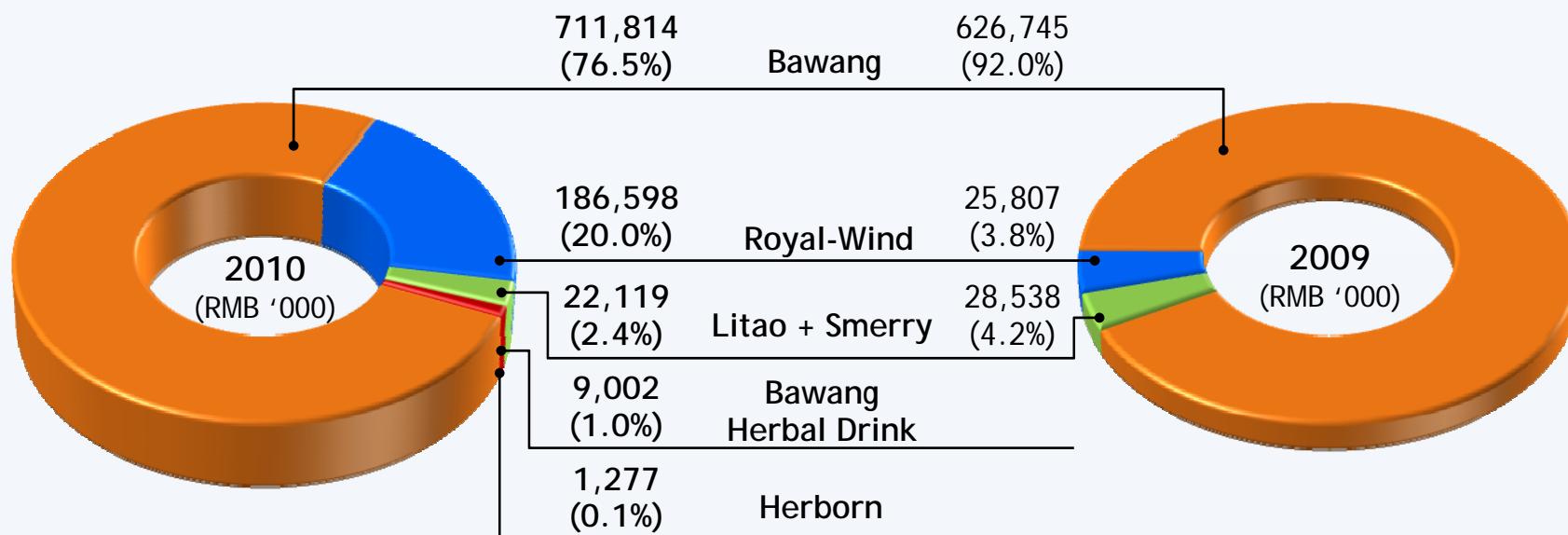


	1H 2010	1H 2009	Change (%)
(RMB '000)	<i>For the six months ended 30 Jun</i>		
 Shampoo & hair-care products	889,669	643,761	+ 38.2%
 Skincare products	3,691	4,320	- 14.6%
 Herbal drinks	9,002	--	N/A
 Other products	28,448	33,009	- 13.8%





# Revenue by Brand



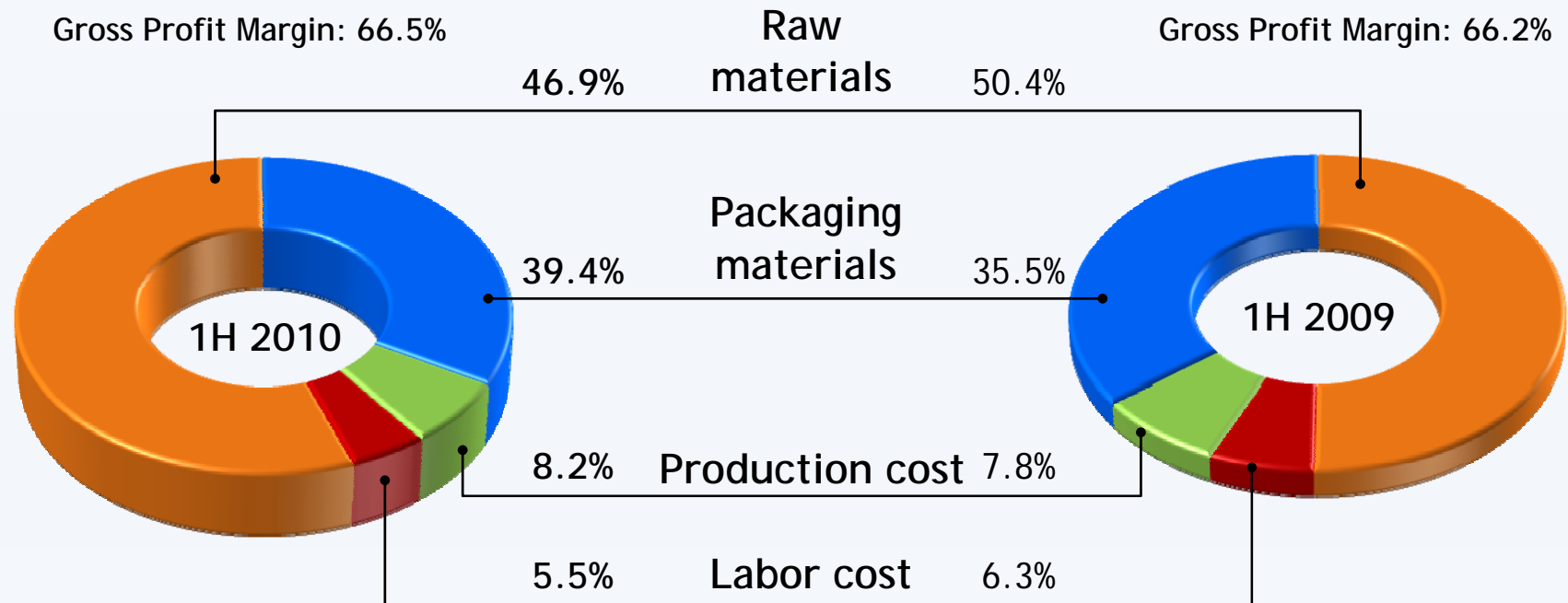
	1H 2010	1H 2009	Change (%)
(RMB '000)	For the six months ended 30 Jun		
Bawang	711,814	626,745	+ 13.6%
Royal-Wind <sup>(1)</sup>	186,598	25,807	+ 623.0%
Litao + Smerry	22,119	28,538	- 22.5%
Bawang Herbal Drink <sup>(2)</sup>	9,002	--	N/A
Herborn <sup>(3)</sup>	1,277	--	N/A

Notes 1. Launched in May, 2009  
 2. Launched in April, 2010  
 3. Launched in December, 2009



# Effective Cost Control

## Cost of Sales Breakdown



- ◆ Gross profit margin increased due to the change in product mix and decrease in cost of raw material as percentage of revenue
- ◆ COGS increased by 35.3% mainly due to the increase in sales and production volume





# Operating Expenses Analysis

- ◆ Selling & distribution expenses increased by 34.5% to RMB382 million mainly due to the increased advertising expenses to promote our new brands
- ◆ Administrative expenses increased to RMB53 million mainly due to increase in administrative staff and R&D expense

	1H 2010	As % of revenue
(RMB'000)	<i>Six months ended 30 June</i>	
<b>Selling &amp; distribution costs</b>	<b>382,063</b> (2009: 284,103)	<b>41.0%</b> (2009: 41.7%)
<b>Advertising</b>	<b>166,673</b> (2009: 87,674)	<b>17.9%</b> (2009: 12.9%)
<b>Others</b> (including news products launch, meeting expenses and promotion & salary)	<b>215,390</b> (2009: 196,429)	<b>23.1%</b> (2009: 28.8%)
<b>Administrative expenses</b>	<b>53,435</b> (2009: 36,016)	<b>5.7%</b> (2009: 5.3%)



# Strong Financial Position

	1H 2010	2009
(RMB'000)	<i>Six months ended 30 Jun</i>	<i>Year ended 31 Dec</i>
Net trade receivable days	68 days	49 days
Trade payable days	65 days	56 days
Inventory turnover days	39 days	35 days
Cash & bank balances	1,698,218	1,742,523
Current assets	2,456,295	2,498,928
Current liabilities	532,291	490,045
Net assets	1,959,774	2,034,232
Current ratio	4.61 times	5.10 times





# CAPEX Plan

Project development	Phase 1	Phase 2
Expected year of completion	2010	2012
Estimated capacity upon completion	100,000 metric tons	280,000 metric tons
Estimated gross floor area	75,000 m <sup>2</sup>	123,000 m <sup>2</sup>
Estimated CAPEX for 2010 will be RMB150 million		





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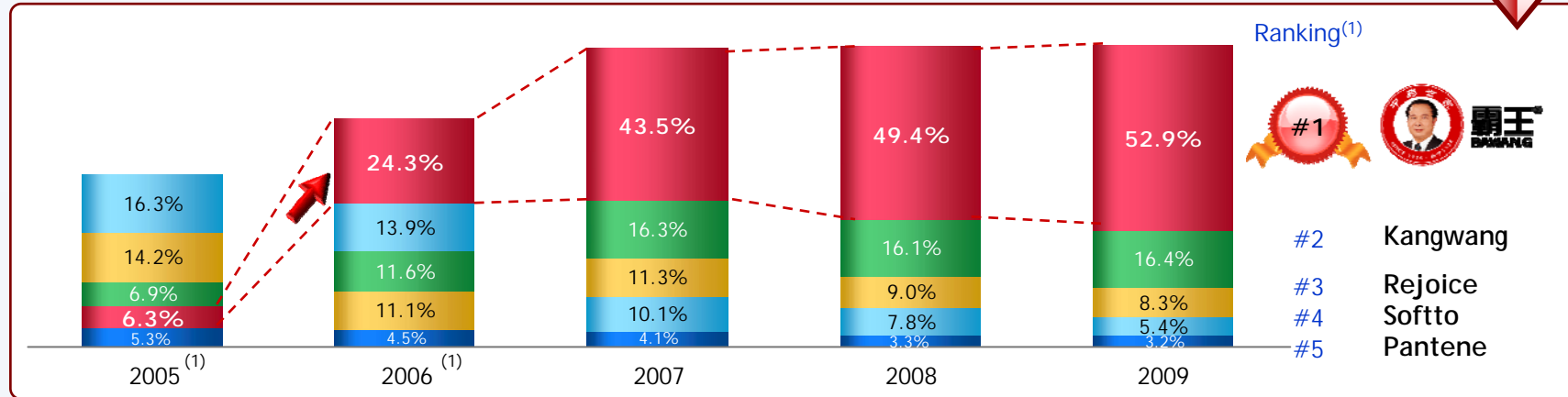
## *Business Review*





# Strengthened Leading Position in China Shampoo & Hair-care Market

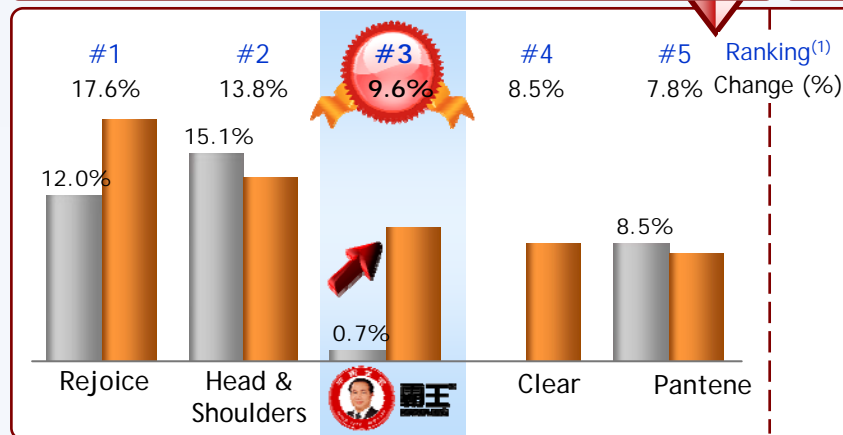
## Bawang Excels in Chinese Herbal Shampoo Market with Over 50% Market Shares



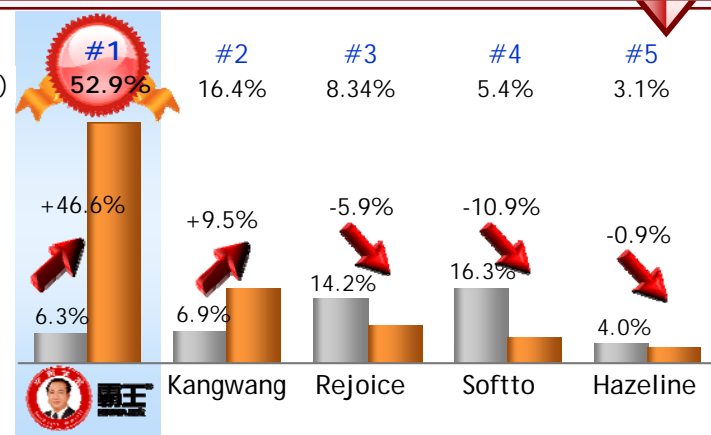
Source: Euromonitor

Noted: Top 10 ranking based on 2009 herbal shampoo brands market shares

## Bawang Ranked the Third Shampoo Brand in China



## Leading Position in Chinese Herbal Shampoo Market



Source : Euromonitor

Note: The 2009 ranking

2005

2009



# Diversified Brand and Product Portfolio

Brand	Year of launching	Key product type	Target customers
<b>Chinese Herbal Series</b>			
 Bawang	1998	Chinese herbal shampoo, hair-care products and other HPC products	Medium- to high- end market
 Bawang Men's Series	Dec 2009	Men's Chinese herbal shampoo, hair-care products and other HPC products	
 Royal Wind	May 2009	Chinese herbal anti-dandruff shampoo, hair-care products	
 Herborn	Dec 2009	Chinese herbal skincare products	
 Bawang Herbal Tea	April 2010	Chinese Herbal Drink	
<b>Non- Chinese Herbal Series</b>			
 Litao	2001	Non-Chinese herbal shampoo and hair-care products and other HPC products	Medium- end market
 Smerry	2004	Skincare products	





# Official Launch of Bawang Herbal Drink

- ◆ Officially launched Bawang Herbal Drink in April 2010 to diversify into beverage market
- ◆ Three different flavors including Energetic(活力型)、Light Sugar (清甜型) and Sugar Free (无糖)
- ◆ Targets at customers who have high purchasing power and pursue healthy and natural way of life
- ◆ Distributed through retail stores in four provinces covering 50 cities in Southern China, followed by other regions throughout China
- ◆ Appointed Donnie Yen (甄子丹) as the brand ambassador of Bawang Herbal Drink



Energetic



Sugar free



Light sugar



# Performance of New Brands



- ◆ Expand into high-end professional shampoo and hair-care market by introduction of Bawang Men's Series, which was well-received by its target customers
- ◆ Opened up specialty counters inside a number of supermarkets
- ◆ Accounted for 7.4% of the overall revenue of Bawang branded products in only half a year since it was launched



- ◆ A medium- to high- end shampoo and hair-care brand
- ◆ Revenue derived from Royal-Wind amounted to approximately RMB190 million in 1H2010
- ◆ Rapid expansion of distribution network which covers 26 provinces and 4 municipalities
- ◆ Successfully launched in overseas markets such as HK



- ◆ A medium- to high- end Chinese herbal skincare product
- ◆ Proven brand building efforts in establishing a brand new Chinese herbal skincare product line
- ◆ Further strengthened distribution network to cover department stores and foreign supermarkets in five provinces & four municipality





# Deepen Market Penetration in China Further Expand into Overseas Markets

*Strong connection between headquarters & distributors/ KA retailers*



Headquarters



587 Distributors<sup>(1)(2)</sup>



44 KA Retailers<sup>(2)</sup>



481 Distributors & 44 KA Retailers<sup>(2)</sup>



9 Distributors & 5 KA Retailers



76 Distributors



Notes:

1. We also sell products via distributors in Singapore, Thailand, Myanmar, United Arab Emirates, Hong Kong and Macao

2. As at 30 June, 2010

# Strong Product R&D Capability

- ◆ A professional R&D team comprised 52 members
- ◆ The R&D team works closely with sales and marketing team to evaluate market trends and preferences for new product development and improvement of existing product formula
- ◆ The Group was authorized by Guangzhou Science and Technology Department, National Development and Reform Commission and State Economic and Trade Commission to establish “Key Engineering Technology Centers in Guangzhou for R&D of Chinese herbs” (广州市中草药日化重点工程技术研究开发中心)
- ◆ The R&D project which related to the extraction of contents from polygonum (何首乌) was admitted in the National Torch Program of China (国家火炬计划)
- ◆ Applying for the registration of a number of patents relating to researches about Chinese herbs and hair blackening
- ◆ R&D expenses in 1H2010 amounted to approximately RMB26.2 million





# Stringent Quality Controls

- ◆ Our quality control team comprised 55 members which closely monitors production process, equipment and machinery
- ◆ Obtained ISO9001:2000 for product design, development and production
- ◆ Obtained ISO14001:2004 environmental management certification
- ◆ Implement a set of quantitative measurements on the quality and standards for raw materials
- ◆ Introduced advance technologies to minimize the content of unwanted by-products



# Innovative and Effective Branding and Marketing Strategies



In-store promotion & Chinese herbal related events



Covering all major TV channels



Brand ambassadors



Banners & kiosks to attract customers' attention



Public transport & billboards



Newspapers, magazines & internets



*Complete coverage: newspaper / TV channels, internet and outdoor media throughout China*







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## *Future Strategies*





# Future Strategies

Strengthen marketing efforts for existing and new brands

Expand product portfolio

Expand into upstream business to secure supply & control quality of raw materials



Reinforce R&D capabilities and quality control measures

Expand production capacity to cope with future development

Further expand domestic & overseas distribution network



# Mission



**霸王®**  
**BAWANG**

## To Become a Global Leader of Branded Chinese Herbal HPC Products







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## Q & A

